

Operating Framework for the Trading & Settlement of PHOENIX PETROLEUM PHILIPPINES, INC. (PNX) Fixed-Rate Notes Due 2019

1. Introduction

- 1.1. Unlike regular listed securities in PDEX, which under the Securities Regulation Code (SRC) and its Implementing Rules and Regulations (SRC-IRR) require SEC registration or that they be exempt securities under Section 10 of the SRC, enrolled securities in PDEX under PDEX Rule 7.19 shall be those that are issued or sold under an exempt transaction under SRC Section 10.1(l) and SRC Rule 10.1.3, being limited only to Qualified Investors.
- 1.2. Under the premise that the exemption from registration may be impaired if such enrolled securities are held by non-Qualified Investors, a set of conventions, controls and processes are included within this Operating Framework that focus on the mitigation of the risk of transfers to non-Qualified Investors and the resolution of situations when holdings of enrolled securities have been verified to be with nonqualified Investors.

2. Coverage

- 2.1. This Operating Framework for Trading and Settlement shall apply to trades on the following securities ("Notes") of PHOENIX PETROLEUM PHILIPPINES, INC. (PNX or the "Issuer") upon their enrollment on the Philippine Dealing & Exchange Corp. (PDEX): PNX Fixed-Rate Notes Due 2019 ("PNX Notes Due 2019")
- 2.2. A PDEX Trading Participant that trades on the Notes shall be bound by this Operating Framework for the Enrolled Securities (Framework), the Trading Conventions for Fixed Income Securities in the Public Market (PDEX Trading Conventions), and the PDEX Rules for the Fixed Income Securities Market, as Amended (PDEX Rules) and the Trading & Settlement Guidelines for Holders Subject to 25% or 30% Final Withholding Tax for Listed Corporate Securities, which shall be applied in this case.

3. Holder Eligibility

- 3.1. In accordance with the Terms and Conditions of the Notes, under this Framework the Notes are only available for purchase and sale to resident Qualified Institutional Buyers (QIBs) or alternatively "Qualified Investors". No juridical person that is not a Qualified Buyer as defined by applicable securities laws and regulations is allowed to purchase the Notes. For the avoidance of doubt, natural persons and non-residents are not eligible buyers or holders of the Notes.

- 3.2. For reference, an institutional Qualified Investor is defined by SRC IRR 2015 Rule 10.1.3 as follows:
- 3.2.1. Bank;
 - 3.2.2. Registered Investment house;
 - 3.2.3. Insurance Company;
 - 3.2.4. Pension fund or retirement plan maintained by the Government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the BSP to engage in trust functions;
 - 3.2.5. Investment Company
 - 3.2.6. Such other person as the Commission may by rule determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial and business matters, or amount of assets under management. For this particular class of QIB, it shall be necessary that an SEC-registered QIB registrar shall ascertain the QIB nature of the QIB. The Trading Participant who will deal with the QIB whether as counterparty or Broker represents and warrants the same to PDEX and PDTC in its being involved in the trade, at the time of the same.

4. Eligible Participants and Specific Responsibilities as to Eligibility of Holders

- 4.1. Trading of the Notes will be open to PDEX Dealers as well as those PDEX Broker Participants acting on behalf of any of the Eligible Holders above.
- 4.1.1. Each Trading Participant shall determine the eligibility and suitability of each buyer, and ensure that the buyer fully understands the terms and conditions of, and the risks involved in investing in the Notes, including the option feature of the Notes and the tax feature of the same.
 - 4.1.2. Each Trading Participant is expected to be informed of the special features and mechanics relating to the Notes as contained in this framework and warrants the same every time it enters a trade involving the Notes.
- 4.2. Responsibilities of Dealer and Broker Participants with Respect to the Notes. The restriction of holdings to Eligible Noteholders shall be maintained throughout the tenor of this Note, and for purposes of this framework Dealer and Brokers Participants trading these Notes shall have the following additional responsibilities and liabilities:
- 4.2.1. Warrant on Client / Counterparty Eligibility. Each Participating Broker and Dealer shall be responsible for ensuring that and thereby represent and warrant that their clients (for Brokers) or counterpart clients (for Dealers) are Qualified Institutional

Buyers (QIBs) at the point of purchase and eligible to purchase and hold the Notes.

- 4.2.2. Identification of QIB Registrar. For QIB clients falling under 3.2.6 above, each Participating Broker and Dealer shall indicate the QIB Registrar of such QIB clients or counterparts. Brokers and Dealers also represent and warrant that the QIB Registrar is duly registered as such with the SEC.
- 4.2.3. Liability for Client / Counterparty Eligibility. Each Broker and Dealer Participant shall be liable for the eligibility of their clients and counterparty at the point of purchase of the Notes. Broker and Dealer Participants shall indemnify an injured party for liabilities arising from the ineligibility of the client/counterparty damaging the exempt nature of the Notes. Broker and Dealer Participants shall also assume any cost incurred for remediation of the ineligibility (e.g. costs of triggering a sell-out provision below).

5. Responsibilities of a Market Maker with Respect to the Notes

- 5.1. The notes must be subject to the commitment of at least 1 (one) Market Maker.
- 5.2. The Market Maker firmly commits to provide a live bid using the tax-withheld series name for the Issue in the Order-Driven system good for the minimum trading lot for the issue and a cumulative trading commitment of at least PhP 50 Million per trading day per issue.
- 5.3. The Market Maker commits to all other regulations as described in the Corporate Security Market Maker Participation Letter.
- 5.4. In addition, and because of the special sensitivity of the specific community of holders for this issue to market valuation, and in recognition of its role as a primary source of reference pricing and valuation, the Market Maker further commits to:
 - 5.4.1. Adopt and abide by a rate reasonability standard that is consistent with PDEX rules, conventions and guidelines, and
 - 5.4.2. Disclose and explain its reference and pricing methodology and any deviations therefrom to PDEX and regulators, upon request.

6. Guidelines on Determination of Eligibility of Holders and Handling of Intervening Events Causing Loss of Eligibility of the Holder

- 6.1. For clarity, an investor must be verified as a QIB at the point of purchase of the Notes in the secondary market.
- 6.2. If an intervening event affects the status of the buyer or holder as a QIB after purchase, such QIB will not be forced to sell its holdings and the exempt nature of the Notes will not be affected. However, such QIB shall no longer be eligible to purchase additional Notes.

- 6.3. If the ineligibility of a buyer at the point of purchase is discovered after purchase, the exempt nature of the Notes will not be affected. However, the Investor will be forced to sell its holdings through the remediation procedure described in this Framework.
7. **Primary Market Order.** PDEX admits the enrollment of the issue on the warranty of the Issuer that all holders holding the Note at the time of enrolment meet the eligibility requirements as described in this Framework.
8. **Controls for Secondary Market Transactions on the Notes.** Following are control procedures specifically for secondary market trades of the Notes:
 - 8.1. **Account Opening**
 - 8.1.1. The Investor Registration Form (IRF) and other related documents by a prospective Buyer of the Notes must confirm the applicant as a QIB.
 - 8.1.2. The Trading Participant sponsoring the QIB purchaser shall (1) represent and warrant to the Registry that Account Opening onboarding documents as submitted to the Registry are on behalf of a QIB, (2) identify the client's SEC Registered QIB Registrar, and (3) represent and warrant that the QIB Registrar is registered as such with the SEC.
 - 8.1.3. Relying solely on the representations and warranty of the Trading Participant, the Registry will not effect transfers of the Notes to an ineligible Investor. Incomplete or defective submissions will not be processed.
 - 8.2. **Remediation Procedure.** If it is discovered after purchase that (i) a buyer is not an Eligible Noteholder at the point of sale, or (ii) a transfer or recording of ownership has been made to an entity who is not an Eligible Noteholder (each of (i) and (ii) shall be deemed as a "Sell Out Trigger"), a remediation procedure via the sell-out mechanism of such ineligible investor or Noteholder's Fixed-Rate Notes will be done in accordance with the following:
 - 8.2.1. In case of violation of restrictions of Eligible Holders, the Registry shall not effect any account opening at the Registry and no transfer will be possible from the Depository to the Registry.
 - 8.2.2. The party that discovers a violation in the eligibility requirements (e.g. Participant, Registry) must immediately inform PDEX of the violation.
 - 8.2.3. PDEX shall inform the Trading Participant involved to trigger the Remediation Process - Sell-out Mechanism as follows:
 - 8.2.3.1. The ineligible Buyer's Trading Participant shall sell out the ineligible client buyer's holdings at the market. In the absence of a better bid then it must sell to the Market Maker.

- 8.2.3.2. The Trading Participant must execute the sell-out transaction no later than three (3) trading days from the day of discovery.
 - 8.2.3.3. The Depository shall not allow any ineligible investor to hold the Notes by the end of three (3) trading days from the day of discovery.
 - 8.2.3.4. The sell-out mechanism may result in a price difference between the original purchase and the sell-out price. If the price difference results in a loss, such loss shall be assumed by the responsible Trading Participant. If the price difference results in a gain, it shall accrue to the ineligible investor that was forced to sell out the holdings.
9. **Pricing Convention.** Quotations for the Notes shall be expressed in terms of Clean Price (i.e., price without accrued interest), exclusive of any applicable withholding tax. The Trading System shall calculate an implied Yield to Maturity.
10. **Day Count Standard.** The day count standard shall be 30E/360 ISMA non end of month.
11. **Minimum Denomination.** The minimum denomination for trading on the Notes will be Five Million Pesos (PhP 5,000,000) and increments of One Million Pesos (PhP 1,000,000) thereafter.
12. **Series Names in Trading System.** There shall be two (2) series names for the Notes in the corporate securities board of the Trading System. The two (2) series names for the Notes are being made available solely for settlement value computation purposes, and should neither be construed as two (2) separate tranches or series nor as separate securities.
 - 12.1. **Tax-Withheld Series Name** - the settlement value of a done trade on this series name shall be computed on a tax-withheld basis, based on a withholding tax rate of 20%.
 - 12.1.1. PNX Fixed-Rate Notes Due 2019 - “ES PNX 09-19”
 - 12.2. **No Withholding Tax (NWT) Series Name** - suffix “NWT” indicates that the settlement value on a done trade on the series shall be computed on a no tax-withheld basis.
 - 12.2.1. PNX Fixed-Rate Notes Due 2019 - “ES PNX 09-19-NWT”
 - 12.3. The main series name provides a description of the following information regarding the Notes:
 - 12.3.1. Class of Security - ES (Enrolled Security)
 - 12.3.2. Issuer Symbol - PNX
 - 12.3.3. Maturity Month - 09 (i.e., September)
 - 12.3.4. Maturity Year - 19 (i.e., 2019)

13. Trading Mechanics

- 13.1. The Notes shall be available for quotation and trading by and among PDEX Dealing Participants and QIBs (directly or through their PDEX Brokering Participants) on the PDEX Trading Platform, subject to the PDEX Rules and Trading Conventions and this Framework.
- 13.2. The standard settlement date for the Notes is Trade Date +1. (T+1).
- 13.3. In case of a Brokering Participant, the PDEX Brokering Participant shall warrant that it is acting on behalf of a customer that is a Qualified Investor as defined in applicable securities laws and regulations.
- 13.4. In case the buy or sell order is coursed through a Brokering or Dealing Participant, the Brokering or Dealing Participant shall input the appropriate PDS Investor Code (PIC) when executing the order. The PIC association enables the securities settlement of the investor's trade into the designated Depository account.
- 13.5. Enrolled Security transactions executed on the PDEX Trading Platform shall be settled through the PDS Clear System (formerly eDVP System) in accordance with PDEX Rules.
- 13.6. Series Names on the Trading System
 - 13.6.1. Orders for the account of tax-withheld investors and Dealing Participants trading for their own proprietary position shall be dealt using the tax-withheld series name.
 - 13.6.2. No Withholding Tax Series Name. Orders for the account of investors not subject to withholding tax shall be dealt using the no-withholding tax series name.

14. Record Date for the Notes

- 14.1. The Record Date for the Notes due is the second (2nd) business day prior to the relevant Interest Payment Date.

15. Settlement Policy for Corporate Security Transactions

- 15.1. Settlement shall be in accordance with the Fixed Income Delivery versus Payment (FIDvP) settlement timeline, and other settlement Framework for admitted corporate securities.
- 15.2. Transactions arising from an auto sell out shall likewise follow the current fixed income DVP settlement timeline, and other settlement Framework for admitted corporate securities.

16. Restrictions on Transfers across Tax Status

For purposes hereof, "Tax Categories" refer to the two (2) final withholding tax categories covering, tax-exempt entities and 20% tax-withheld entities.

- 16.1. In accordance with the Terms and Conditions of the Notes, Transfers across Tax Categories shall not be allowed except on Interest Payment

Dates that fall on a business day, provided however that transfers from Tax-Exempt Category to a Taxable Tax Category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same Tax Category of its taxable counterpart for the interest period within which such transfer occurred.

- 16.2. For transfers across Tax Categories occurring on Interest Payment Dates, PDEX Trading Participants shall execute trades using the Tax-Withheld Series Name, where computations are based on a final withholding tax rate of 20%.
- 16.3. This restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented.
- 16.4. A Bondholder claiming tax-exempt status is required to submit to the Registry of Bondholders the required tax-exempt documents as detailed in the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Transfers taking place in the Electronic Registry of Bondholders after the Notes are listed on PDEX shall be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and Framework of PDEX and PDTC.